

Realty Stock Review

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MARKET COMMENT: INSTITUTIONAL HOLDINGS IN REALTY STOCKS SURGE UNDER BEARISH SKY

Since midyear, realty stock prices have gone into a holding pattern while the broad market has vaulted to new highs. The stall has brought out a lot of bearish media comment (see RSR, Nov. 22) and tended to obscure a big growth in institutional ownership in realty stocks -- meaning individual are sellers.

What caught our eye was the report in last week's Barron's that **Rockefeller Center Properties Inc.** was the 17th most heavily bought stock by institutions during the third quarter. No other realty stock has ever made the list of top 50 institutional net buys, in our recollection. Institutions bought \$138 mil. of RCP shares on its Sept. offering and held 19.6% of RCP at quarter-end.

Now this isn't the millenium because realty stocks still aren't a separate category in the eyes of Barron's and Standard & Poor's. But RCP's appearance in the quarterly tallies is causing more institutions to take notice of realty stocks. How much becomes clear from a tally of the change in institutional holdings in some widely held REIT and realty stocks over the past year, with numbers coming from the S&P Stock Guide:

INCREASES IN INSTITUTIONAL HOLDINGS

---Institutional Owners---

stock	No.	% Owned	Chng. in Yr.
BankAmer. Rl...	36	51.4%	+ 6.4%
EQK Realty....	31	50.4	New
Federal Rlty...	31	27.7	+11.9
First Union RE.	58	35.9	+ 7.5
Hotel Invest...	26	48.0	+19.0
Hubbard RE....	36	22.8	+11.7
ICM Prop. Inv...	16	29.6	New
L&N Housing....	15	25.2	+ 2.5
Lom.&Net. Fin.	106	70.2	+ 9.1
Lom.&Net. Mtg...	48	26.6	+ 8.4
Rock.Ctr.Prop.	49	19.6	New
Santa Anita....	23	13.7	+ 5.9

DECREASES IN INSTITUTIONAL HOLDINGS

Americana Hot..	18	23.3%	- 5.9%
Koger Co.....	37	20.9	- 5.7
Koger Props....	31	23.2	- 8.9
Prop. Capital..	24	50.1	- 5.3
Rouse Co.....	72	34.6	- 1.0

The decreases may only reflect institutional profit taking in their really big winners to buy into the massive Rockefeller offer. Overall increases are impressive, with major new institutional buys in **EQK Realty** and **ICM Property** in addition to the RCP purchases. And the S&P data do not yet include holdings in some other institutional stocks such as **Prudential Realty**, **Weingarten Realty**, and **Trammell Crow Real Estate Investors** (see page 4).

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Your editor recently took part in a Wall Street Transcript panel on real estate developers and REITs. For a free copy, send a self-addressed stamped envelope (39¢).

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PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS SUBSCRIPTIONS \$244 ANNUALLY/GROUP RATES ON REQUEST

RANKING REVIEWS: SAM ZELL'S GREAT AMERICAN MGMT. BECOMING NEW CONGLOMERATE

Great American Management & Investment Inc. (\$15.50--OTC) holds C Rank in our Review. But this one-time high-flying REIT, under the tutelage of 68.8% owner Chicago realty operator Sam Zell, is fast becoming a diversified conglomerate. Zell views GAMI as a merchant bank which makes investments (generally 80% control) in operating divisions. Availability of taxlosses of about \$9/sh. reduces risk and provides taxfree profits if these investments work out. GAMI still retains significant realty operations and hence we are continuing coverage despite the many lines.

EPS/Dividends - C: GAMI's EPS under general accounting principles (GAAP accounting) have been volatile in the last five years as it first cashed gains from selling much of its REIT portfolio, then began digesting acquisitions. As result GAMI lost 85¢ sh. in its July fiscal year, v. 52¢ profit in 1984. But if all five of GAMI's 1985 acquisitions had been included for both years, GAMI's loss would actually have narrowed from \$3.09/sh. to 85¢.

But looking at EPS under GAAP accounting principles doesn't begin to tell the GAMI story. GAMI generated an astonishing \$11.48/sh. in operating cash during 1985, major cash generators including \$1.24/sh. depreciation; \$1.34 reserves for loss on investment in troubled mobile home maker Commodore Corp.; \$1.58 direct credit to equity for tax-loss carryforward benefits earned; \$1.49 from applying realty commissions to decrease contract rights arising from 1983 acquisition of syndicator First Capital Financial; and \$7.32 decrease in inventories, primarily agricultural chemicals acquired in 1985.

GAMI acquired five companies during 1985 under arrangements in which GAMI funds 100% of acquisition price (usually highly leveraged to reduce cash outlay) for 80% ownership and gets a preferential return of 2% over prime rate on its investment. Finders and/or operators get 20% ownership interests and operating control. The arrangements let GAMI get 80% of income to apply against taxlosses. Companies acquired in this

format in a joint venture with Ditri Associates, New York Based industrial consultants, include:

Raines Tool Co., Houston based oil services company, a disappointment so far because of import competition; GAMI wrote off \$4 mil. goodwill in 1985.

Lapp Insulator Co., manufacturer of ceramic insulators, performing well.

Clevepak Corp., diversified manufacturer of ventilators, plumbing products, chemical diaphragm metering pumps, and industrial gear; acquisition pending with possibility of a lowered purchase price pending.

In similar ventures with others, GAMI acquired Kaiser Agricultural Chemicals, Inc., which earned \$12.5 mil. pretax on \$148 mil. sales in its first five months inside GAMI. GAMI is negotiating to expand this line.

Prior acquisitions being integrated include First Capital Financial, major real estate syndicator, which lost \$6.6 mil. pretax on a 33% decline in equity raised (to \$81.5 mil.) and office relocation to Chicago; Orlando based Firststate S&L, \$103 mil. asset S&L which earned \$633,000 pretax. A \$5 mil. preferred stock investment in mobile home maker Commodore Corp. was written off when Commodore filed Chapter XI.

With all these changes, 74% of GAMI's pretax profit still derived from its \$227 mil. mortgage loans (most to facilitate property sales) and management and sales of \$34 mil. properties owned. Agricultural chemicals provided 42% of operating income, while other segments were losers or marginal profit generators.

Financial Measures - C: Total debt of \$165.9 mil. is 1.6 times net equity of \$104.7 mil. (or \$15.96/sh.) and is 51% bank loans to the parent and subsidiaries; 37% subordinated debt; and 12% mortgages on properties. Liquidity is good since cash flow substantially exceeds EPS. GAMI's announced strategy of making leveraged acquisitions entails risks which it believes are manageable.

Exposure - C: GAMI seeks to build upon a large real estate asset base to make selected acquisitions with risk-oriented, entrepreneurial partners who are highly incented to produce longer-term profits and use GAMI's taxlosses.

Christiana Cos. (\$9.75--NYSE) is another realty company transforming itself under new management. In this case CST has acquired F.A.O. Schwarz, a major speciality toy retailer, and sees a future there. Ranking remains D.

EPS/Dividends - D: Because of its roots in higher-priced luxury homebuilding, CST's EPS are volatile. CST lost 94¢ sh. in its June 1985 year, mainly from cleanup items during its transition under new management of Texas investor John H. Roberts Jr. and New York City investment banker John P. Holmes Jr. June year loss reflects pretax inventory writedowns and interest on an IRS tax settlement totaling \$2.52/sh. pretax (about \$1.13/sh. aftertax). CST lost another 22¢ sh. in the Sept. qtr.

Real estate: All 1985 sales came from \$5.6 mil. condo sales at Cross Creek in Atlanta, down 15% on 76 unit sales; this project is now debt free and should generate about \$800,000/mon. cash flow in 1986. Construction of a 54-DU condo project in Marina del Rey in Los Angeles was delayed and sales of the \$400,000 units should begin in 1986. CST acquired stock of Remington Club, a continuing care and skilled nursing facility in Rancho Bernardo, north of San Diego, in April along with an option to retire \$11 mil. of debt (mostly from a bankrupt S&L project sponsor) for \$5 mil. for cash during the Dec. qtr. Inventory writeoffs at Remington were 50¢ pretax.

Joint ventures: Subsidiary Christiana Investment Realty (CIRI) sold two positions, a Las Vegas office complex and Scottsdale, Ariz. land, for total \$1.87/sh. pretax gain. In Aug. CST sold an idle Houston project for \$4 mil. gain, used to buy Schwarz. CST also owns a 5% partnership interest in the 1.2 mil. sq. ft. One South Wacker Drive building in Chicago.

Speciality toys: In Aug. CST bought F.A.O. Schwarz, whose speciality toys are sold at 22 locations including a landmark New York City building on Fifth Ave. for \$10.55 mil., paid \$2.35 mil. cash, \$4 mil. from the Houston land sale, and \$4.2 mil. from lease termination agreement at the NYC store. A seasoned retailer will head Schwarz.

Financial Measures - B: Debt of

\$22.2 mil. at June is 1.1 times \$19.5 mil. equity or \$8.12/sh. at June. Most new debt relates to the California health care facility. Liquidity is good and CST generated \$3.2 mil. cash in 1985 even with the GAAP accounting losses.

Exposure - C: CST has historically operated with low debt and seems likely to continue, selling idle assets recently to enter new businesses. The Schwarz retailing unit isn't expected to generate significant cash for some time, and is a competitive arena. As a smaller entity, CST is somewhat exposed.

British Land of America (\$4--NYSE) stays at D Rank as this former REIT expands in real estate with backing of its major English sponsor, British Land.

EPS/Dividends - D: EPS of 19¢ sh. in the June 1985 fiscal year included 10¢ taxloss carryforward benefits, v. 10¢ total income in 1984. 1985 income included \$1.07/sh. pretax gains on property sales. The Sept. qtr. brought 56¢ sh. loss, including 50.5¢ arising from cost overruns and profit rollbacks at 50% owned Sofia condos in Manhattan. BLA is building upon its REIT property base to acquire major income properties while using its credit via joint ventures developing sale-type projects.

Manhattan property deals: BLA has been most active in Manhattan realty dealings, beginning with the Sofia condo joint venture in 1983. In 1985 BLA acquired a Manhattan office (315 Park Ave. South) for cash and stock, then resold it to an unrelated partnership for \$3.75 mil. current gain plus \$7.3 mil. (\$2.08/sh.) gains deferred over the next seven years. Also in 1985 BLA invested \$5 mil. in a 50% interest in a planned 21-story building with 81 condos in the Greenwich Village area; about half the units are under sale contracts now. BLA will guarantee 22% of the \$16.5 mil. construction loan.

Other property: BLA also owns a Rodeway Inn near Houston; a major recreational community in Wisconsin; and shopping center in Newfoundland, now in the process of being sold after litigation was settled at \$1.2 mil. (32¢) pretax charge in 1985. BLA took back a \$38.5 mil. wraparound mortgage on sale of the 315 Park Ave. South office, ad-

ding to future cash flow. Income is thus derived about 51% mortgage interest, 23% property operations, and the rest property sales and joint ventures.

Financial Measures - C: Debt of \$62.7 mil. is 4.3 times equity of \$14.6 mil. or \$3.96/sh. Debt is \$32.0 mil. (51%) bank loans relating to British Land's 1982 acquisition of BLA control and property acquisition loans; \$21.4 mil. (34%) mortgages including \$18.2 mil. mortgage underlying the 315 Park Ave. South transaction; and \$9.2 mil. subordinated debentures due to the parent and convertible at \$3/sh. or 3.07 mil. additional shares.

Exposure - C: British Land, a major English property company, clearly wants to make BLA a major player in U.S. real estate. It has demonstrated repeated use of parent credit guarantees and assistance to further BLA's expansion, and has hinted at sale or exchange of new stock to acquire assets. While such issuance would dilute the parent's control of about 70% (via the converts), it underscores the off-balance sheet strength in BLA.

NEW LISTINGS IN RSR: TRAMMELL CROW REAL ESTATE AND LANDSING INSTITUTIONAL ADDED

One of the largest and most private real estate developers of them all, Trammell Crow, bowed into public markets with the public offering of 7.88 mil. shs. of **Trammell Crow Real Estate Investors** at \$15/sh. on Nov. 21. Shares trade on the NYSE under TCR symbol. Simultaneously TCR sold \$156.3 mil. of zero coupon notes for \$35.7 mil. (22.8% of par) to yield 13.1% compounded annually. TCR

will use the \$159.7 mil. proceeds to buy 13 industrial properties with 2.95 mil. sq. ft. for about \$42.32/SF, and a Denver enclosed speciality retail mall with 191,900 SF for about \$177/SF. Acquisition prices work out to about 97% of appraised value. All buildings are complete and industrial properties 90.9% occupied, the shopping center 98.5% occupied. Industrial properties are located in Baltimore, Charlotte, Dallas, Houston, and Los Angeles. Trammell Crow organization, the sponsor, is a network of 1,600 general partnerships and joint ventures which together own or manage 170 mil. SF of property valued at \$7 bil. Until now Trammell Crow has depended upon private sources for financing. TCR shares are expected to yield \$1.395 in 1986 (9.7% at market of \$14.38), of which about 69% is estimated to be taxfree capital return.

Landsing Institutional Properties V is the most actively traded of seven REITs sponsored by Landsing Corp., a Menlo Park, Cal. realty company. Shares trade OTC under LANVS symbol (\$9 bid). LANVS sold 5.68 mil. shs. at \$10 in a best efforts offer closing Feb. 1984. It will operate as a finite life trust and liquidate in about 10-12 years. LANVS holds \$49.8 mil. assets invested 35% in directly owned properties and 65% in convertible mortgage notes held by a Landsing-managed private limited partnership, Landsing Realty Partners. Convertible notes carry interest from 13.6% to 16.0%, not less than half payable in cash and the rest accrued. Notes are due in 1992 and convert into equity in LRP's properties. Dividend is 60¢.

COMPARATIVE REALTY STOCK GROUP AVERAGE 12/03/85

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANN DIV	EARN ANN	LAST PRICE	-% CHNG NOV 19	FROM-- JAN 1	P/E RATIO	ANN YIELD	% PR TO BK	RETURN ON BK	MARKET VALUE
1 PROPERTY REITS	35	5	40	5246	11.28	1.20	1.12	14.84	-1.0	4.6	13.3	8.1	131.6	9.9	3226.0
2 PROP & MTG COMB REITS	19	1	20	5217	12.92	1.59	1.93	15.38	0.4	-12.6	8.0	10.3	119.1	14.9	1675.2
3 MORTGAGE REITS	13	2	15	5897	14.95	1.86	2.49	14.84	0.8	-3.0	6.0	12.5	99.3	16.7	1299.7
4 PARTICIPATING MTG REITS	12	0	12	7687	12.76	1.36	1.12	13.33	-0.1	-1.3	11.9	10.2	104.5	8.8	1297.0
5 MAJOR HOMEBUILDERS	8	2	10	14238	11.54	0.32	1.59	16.00	2.6	5.8	10.1	2.0	138.7	13.7	1947.4
6 OTHER BLDRS/DEVELOPERS	9	25	34	4776	6.71	0.11	0.31	9.16	0.4	22.3	29.9	1.2	136.4	4.6	1498.7
7 INCOME PROP BLDR/OWNR	13	8	21	6124	8.77	0.70	0.76	15.86	0.8	8.7	20.9	4.4	180.9	8.7	2523.2
8 MORTGAGE BANKER/FINANCE	7	6	13	10143	10.42	0.91	0.16	13.62	0.9	16.3	83.9	6.7	130.7	1.6	2878.7
9 DIVERSIFIED RLTY&HOLDING	13	9	22	18460	13.39	0.31	1.32	19.49	1.3	27.2	14.8	1.6	145.5	9.8	12101.4
10 RLTY SVCS/SYNDICATOR	4	2	6	7677	5.53	0.11	0.78	9.42	-1.5	11.0	12.1	1.2	170.3	14.1	387.0
11 MANUFACTURED HOUSING	3	7	10	11765	5.40	0.12	0.16	8.35	1.7	-9.6	51.6	1.5	154.8	3.0	1065.0
P PREFERRED STOCKS			3	2596	8.83	0.80	0.00	12.04	-0.7	19.9	NC	6.7	136.3	NC	89.2
L LIQUIDATING COS			3	8685	6.43	1.23	1.17	8.92	1.9	-4.0	NC	NC	138.7	NC	133.7
OVERALL AVERAGE			209	8029	10.50	0.81	1.05	13.96	0.4	6.7	13.3	5.9	132.9	10.0	30122.2
DOW JONES INDUSTRIALS							90.78	1459.06	1.4	20.4	16.1	4.3			
STANDARD & POOR'S 500							15.55	200.86	1.1	20.1	12.9	4.0			
DOW JONES UTILITIES							17.60	163.83	-0.7	9.6	9.3	8.6			

NOTE: LIQUIDATING COMPANIES AND PREFERRED STOCKS INCLUDED ONLY IN COMPANY AND MARKET VALUE AGGREGATES; NOT INCLUDED IN OVERALL AVERAGES.